

# FISCAL NOTE

## HB 2120

March 22, 2005

### SUMMARY OF BILL:

- Enacts a graduated income tax with five brackets ranging from 3.5% to 7.25% with specified standard exemptions, effective January 1, 2006.
- Reduces Hall Income Tax to 3% on January 1, 2006.
- Repeals Hall income Tax on January 1, 2007.
- Holds local governments harmless on Hall Income Tax reductions and repeal.
- Reduces state sales tax from 7% to 4%, effective January 1, 2006.
- Eliminates 2.75% state tax rate on single article amounts from \$1,600 to \$3,200, effective January 1, 2006.
- Exempts grocery food purchases for off-premises consumption from state sales tax, effective January 1, 2006.
- Reduces aviation fuel rate and interstate telecommunications for business rate to 4%, effective January 1, 2006.
- Authorizes credit for professional privilege tax paid.
- Exempts grocery food purchases for off-premises consumption from local sales tax, effective January 1, 2006.
- Holds local governments harmless on elimination of local sales tax on food purchases for off-premises consumption.

### ESTIMATED FISCAL IMPACT:

**Increase State Revenues – Net Impact - \$83,000,000 FY06**

**\$227,700,000 FY07**

**\$310,400,000 FY08**

**Increase State Expenditures - \$30,000,000 Recurring**

**\$20,900,000 One-Time**

**Decrease Local Govt. Revenues – Net Impact - \$54,800,000 FY06**

**\$114,000,000 FY07**

**\$118,500,000 FY08**


#### Assumptions:

- Increase in state revenues resulting from income tax implementation is estimated at \$1,488.2 million, \$3,231.8 million, and \$3,509.0 million for FY06, FY07, and FY08 respectively.
- Net decrease in state revenues resulting from the Hall Income Tax repeal is estimated at \$50.4 million and \$104.7 million for FY07 and FY08 respectively.

- Decrease in state sales tax revenues resulting from the reduction of the state sales tax rate is estimated at \$1,127.3 million, \$2,348.0 million, and \$2,442.0 million for FY06, FY07, and FY08 respectively.
- Decrease in state revenues resulting from the elimination of the single article tax is estimated at \$25.3 million, \$52.7 million, and \$54.8 million for FY06, FY07, and FY08 respectively.
- Decrease in state revenue resulting from state tax exemption on food is estimated at \$138.5 million, \$288.5 million, and \$300.0 million for FY06, FY07, and FY08 respectively.
- Decrease in state revenue resulting from the reduced rate on aviation fuel is estimated at \$1.2 million, \$2.4 million, and \$2.5 million for FY06, FY07, and FY08 respectively.
- Decrease in state revenue resulting from the reduced rate on interstate telecommunications is estimated at \$8.0 million, \$16.6 million, and \$17.2 million for FY06, FY07, and FY08 respectively.
- Decrease in state revenue resulting from the professional privilege tax credit is estimated at \$12.9 million, \$26.7 million, and \$27.8 million for FY06, FY07, and FY08 respectively.
- Net amount distributed to local governments for hold harmless is estimated at \$92.0 million, \$218.8 million, and \$249.6 million for FY06, FY07, and FY08 respectively.
- Net increase to state revenues is estimated at \$83.0 million, \$227.7 million, and \$310.4 million for FY06, FY07, and FY08 respectively.
- Decrease to local government revenues resulting from reduced apportionment derived from a reduced state sales tax rate is estimated at \$54.8 million, \$114.0 million, and \$118.5 million for FY06, FY07, and FY08 respectively.
- Increase to state expenditures resulting from the implementation of an income tax is estimated at \$30.0 million per year.
- One-time increase to state expenditures resulting from the implementation of an income tax is estimated at \$20.9 million.
- Expenditure estimates cover estimated costs for Legal, Processing, Enforcement, Taxpayer Services, Audit, Systems, Special Investigations, and Fiscal Services.

## **CERTIFICATION:**

This is to duly certify that the information contained herein is true and correct to the best of my knowledge.



James W. White, Executive Director